

Doing Business in Bulgaria

2011



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1. Introduction

UHY is an international organization providing audit, accountancy, business management and consultancy services through financial business centres over 80 countries worldwide. Business partners work together throughout the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Bulgaria has been provided by the office of UHY's representative there:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at July 2011.

We look forward to helping you to do business in Bulgaria.

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2. Business Environment

Geography

Bulgaria lies in the south-eastern part of the Balkan Peninsula, covering an area of 110,993 square kilometres (approximately 42,855 square miles). Bulgaria has a strategic geographical location in the Balkan region with a long border to the north along the river Danube with Romania. Bulgaria has borders to the south with Greece and Turkey and to the west with the Serbia and the Former Yugoslav Republic of Macedonia. The Black Sea forms a natural border to the East. The capital city of Bulgaria is Sofia and other major cities include Plovdiv, Varna, Bourgas and Rouse.

The landscape of the country is predominantly mountainous, although arable land accounts for approximately 41% of the territory. All land routes from Europe to Asia pass through the territory of Bulgaria. Bulgaria has a moderate continental climate. The coldest month is January when average temperatures are minus 2 degrees centigrade and the warmest month is July with average temperatures of around 25 degrees centigrade. The annual average temperature is 12 degrees centigrade and the average annual rainfall is 700 mm.

Population and language

According to the latest official data as of 2006 year-end, Bulgaria's population is 7,351,234 people. Urban population constitutes almost 72.9%. The official language of the country is Bulgarian.

Public holidays

The following table lists public holidays, as provided by the Bulgarian government in 2011:

New Year	January 1
Day of Liberation from the Ottoman Rule	March 3
Second Day of Easter	April 9
Labour Day	May 1
St. Georges Day/Day of the Bulgarian Army	May 6
Day of Bulgarian Enlightenment, Culture and of Slavonic Alphabet	May 24
Bulgaria's Unification Day	September 6
Bulgaria's Independence Day	September 22

Enlightenment Leaders Day (a day-off for educational establishments)	November 1
Christmas Eve	December 24
Christmas Day	December 25
Second day of Christmas	December 26

Government structure

Bulgaria is a parliamentary republic headed by a President. The President is directly elected for a term of five years and can head the Republic for a maximum of two terms. The President emanates the unity of the nation and represents the Republic of Bulgaria in its international relations. Among his powers are ratification of certain diplomatic and military agreements and promulgation of laws, command of the armed forces, etc. The current President, Georgi Parvanov, who was elected in November 2001 and then re-elected in November 2006, became the first re-elected president in the newest Bulgarian history. The next Presidential elections are on October 23, 2011. Bulgaria has a unicameral National Assembly with 240 seats. In the National Assembly 209 members are elected through a closed-list proportional representation system to serve 4-year terms and 31 members are elected by plurality vote in single-member constituencies to serve four-year terms. The next parliamentary elections are in 2013. Twenty-two parties and coalitions and 13 independent candidates took part in the elections.

Bulgaria is represented by 18 members in the European Parliament, which were elected in May 2007. The Citizens for European Development of Bulgaria and the Bulgarian Socialist Party won five seats each, the Movement for Rights and Freedoms won four seats; the "Attack" Coalition won three seats and Simeon II National Movement won one seat.

Infrastructure

Bulgaria is located at the heart of the South-eastern European market which comprises approximately 56 million people. The country's strategic geographical location is further enhanced by the number of international rail and motorways crossing the country and the commercial ports on the Black Sea and the Danube River. The Pan-European Transport Corridors crossing Bulgaria are: IV, VII, VIII, IX and X. A network of eight motorways (E79, E83, E871, E772, E70, E773, E87, and E85) crosses the country, making connection to Western Europe, Russia, Minor Asia and the Black Sea.

Bulgaria has five main ports. The largest are Varna and Bourgas, both located on the Black Sea. Rousse, Lom, and Vidin are significant commercial ports on the Danube. Bulgaria has three major airports, situated in the cities of Sofia, Varna and Bourgas. Sofia airport is the country's leading international airport, which handled 2.2 million passengers in 2006. Effective 2007, the newly-constructed airport terminal can service about 2.6 million people and handle 26,000 tons of cargo volume yearly. Fraport operates the airports of Varna and Bourgas under a 35-year concession. In 2007, Varna Airport doubled its capacity with the opening of a new passenger terminal.

Skilled work force availability

Bulgaria's workforce officially consists of 3,480,800 (third quarter 2010) well-educated and skilled men (53 percent) and women (47 percent). The official adult literacy rate in Bulgaria is 98.3 percent. A high percentage of the workforce has completed some form of secondary, technical, or vocational education. Many Bulgarians have strong backgrounds in engineering, medicine, economics, and the sciences, but there is a shortage of professionals with Western management skills. The demand for skilled managers is increasing with an influx of high technology, innovative, and knowledge-based companies from the EU. The aptitude of workers and the relative low cost of labour are considerable incentives for foreign companies, especially those that are labour-intensive, to invest in Bulgaria.

Financial system

Central bank and commercial banking sector

Amendments to the Bulgarian National Bank (BNB) law, effective as of January 2005, warrant a complete institutional, financial and functional independence of the BNB.

After the introduction of a Currency Board in 1997, the number of monetary policy instruments at the disposal of BNB was significantly reduced. Bad loans to enterprises were converted by law into state bonds with low interest rates for the first six years. The tightening of regulatory controls and the positive effects brought about by the introduction of the currency board have helped the sector to gradually regain confidence.

The banking system has now completely stabilised and continues to mature. The market is dominated by five large banks, which control about 56% of the system's total assets. High corporate liquidity, coupled with attractive terms and rates on deposits, have contributed to a high level of deposit concentration.

Bulgaria has almost completed the privatisation of its state owned banks. About 90% of Bulgarian bank assets are owned by large foreign banks, already well established in Central and Eastern Europe or by banks that are committed to achieving bigger market shares in the region. Some of the major shortfalls of the bank sector include sluggish corporate loan granting process and underdeveloped e-banking.

Currency

The introduction of the Currency Board in the country in July 1997 led to improved confidence in the local currency, exchange rate predictability and lower inflation. After the introduction of the currency board, all constraints on trading with foreign currency within the country were removed. Local banks can sell hard currency to physical and legal entities without any limitations.

The currency unit in Bulgaria is the Bulgarian Lev. At present the BGN is fixed to the EUR at the rate of BGN 1.95583 per EUR 1. The Bulgarian National Bank announces reference rates of the Lev to the other major foreign currencies on the basis of their international market rates. The BGN denominations are as follows:

- Notes: BGN 2, BGN 5, BGN 10, BGN 20, BGN 50 and BGN 100;
- Coins: BGN 0.01, BGN 0.02, BGN 0.05, BGN 0.1, BGN 0.2, BGN 0.5 and BGN 1.

3. Foreign Investment

The annual flow of foreign investment for 2010 was EUR 52.9 million. It is expected that around 1.0 billion euro of FDI in the finance, real estate and retail sectors, and around 1.5 billion euro in the other sectors of the economy for 2011, a forecast that implies a resurgent investor interest in the former. Continual economic development and strong market potential are among the decisive forces that enhance Bulgaria's ability to attract respected international investors. Over the last years the international credit rating agencies have improved the credit rating of the country many times reaching an investment grade.

These investment grade increases were justified by the continued reduction in Bulgaria's general government debt burden, improved liquidity, and the lasting credibility of the government's fiscal policy. The Bulgarian government has signed numerous international treaties for Encouraging and Mutual Protection of Investments with the Netherlands, Cyprus, Finland, France, Denmark, Israel, Sweden, the United Kingdom, Greece, Romania, Portugal, Slovakia and more.

4. Setting up a business

Forms of enterprises

Bulgarian Commercial Act provides the main framework for commercial entities' set up and corporate governance in Bulgaria.

Foreign persons can do business in Bulgaria without incorporation through a permanent establishment. Under Bulgarian law they can also use the following forms of commercial business organization:

- Sole trader – individual;
- Partnership: general partnership, limited partnership, partnership, limited by shares;
- Commercial entity (company) set up by two or more individuals or legal entities for the purpose of carrying out business;
- Branch;
- Representative office;
- Consortium and holding;
- Co-operative society.

The Commercial Act provides for the following types of companies:

- Joint-stock company (AD);
- Limited liability company (OOD);
- General partnership;
- Limited partnership;
- Partnership limited by shares.

The joint-stock company and the limited liability company may be set up as sole-ownership companies in which case their acronyms change to EAD and EOOD, respectively.

A person (regardless whether an individual or a legal entity) may participate as a shareholder/partner in more than one company. An individual may register as only one sole trader.

The Commercial Register is defined in the law as a standard centralized electronic database which contains certain circumstances and disclosures and which is operated by an information system. A separate file in electronic form is kept for each trader and branch of a foreign trader. The Commercial Register is public and is operated by the Registry Agency with the Minister of Justice.

The Registry Agency is empowered to verify the compliance of the incorporation actions and documents with the statutory requirements per the Commercial Act. A company's existence comes to validity as of the resolution of the Registry Agency for recording it in the Commercial Register, stating the company unified identification code. The statutory deadline for the recording of the companies is one day as of the submission of the documents to the Registry Agency. In practice, the registration process takes usually five to ten days due to the workload of the Registry Agency.

The Registry Agency provides automated submission of information about entered traders, branches of foreign traders and the circumstances related and the acts announced in the Commercial Register, to the National Revenue Agency, as well as to other subjects established by law. Traders, branches of foreign traders and circumstances related, subject to registration as per a law, are entered in the Commercial Register. Acts pertaining to the traders and branches of foreign traders subject to registration should be disclosed in the Commercial Register. All the persons who are registered in the Commercial Register receive an obligatory unified identification code which serves as a proof for the circumstances and acts entered in the register.

The rules for registration of a commercial entity apply to both Bulgarian and foreign nationals. Special regulatory/licensing regimes are established for companies intending to operate in the field of banking, insurance, voluntary pension, investment brokerage and certain others. The Bar Act (BA) introduced a new type of lawyers' associations (law firms). A law firm is a non-commercial entity, recorded in a special register with the respective Bar Association and with the District Court. Law firms combine the descriptions of a partnership (e.g. no fixed capital, partners are personally liable for the firm's liabilities to clients) and a co-operative (e.g. the General Meeting is the law firm's supreme body).

The Bar Act provides for terms and conditions under which foreign lawyers may practice in Bulgaria. The regime regarding lawyers from EU member states is preferential. As of the entry into force of the EU Bulgaria Accession Treaty, the lawyers who are citizens of EU Member States and have obtained their legal qualifications in one of the EU Member States are entitled to exercise the legal profession in Bulgaria through assistance or defence for a specific case or through permanent establishment on the territory of Bulgaria. In providing assistance and defence for specific cases, the foreign lawyer is placed on equal footing with Bulgarian lawyers and is bound to use the same name in which exercises the legal profession in the state where has acquired legal competency. Where under Bulgarian

law procedural representation is mandatory, the foreign lawyer may take action of procedural representation only together with a Bulgarian lawyer. A foreign lawyer can establish permanently on the territory of Bulgaria for exercising legal activities under the name used in the state where the legal competency has been acquired, after inscription in the Register of Foreign Lawyers. Following registration in the Register of Foreign Lawyers and three years of actual and uninterrupted exercise of legal profession under the name used in the country where legal competency has been acquired, or following an equivalent examination, a foreign lawyer has the right to apply for inscription at a Bar Association in the Republic of Bulgaria. Inscription at a Bar Association gives foreign lawyers the rights of a Bulgarian lawyer.

Legal representation before a Bulgarian court will be possible for a third country lawyer, when the latter appears in court jointly with a Bulgarian lawyer and a bilateral agreement between the lawyer's home country and Bulgaria exists or the principle of reciprocity is applicable.

Sole traders

Every individual over 18 years of age with permanent address in the Republic of Bulgaria, and who is not insolvent or bankrupt, can record a sole trader in the Commercial Register.

The commercial registration in this case does not infer the establishment of a separate legal entity. The person, sole trader, preserves his/her status of an individual, and a natural person but adds up to the ability of a trader, i.e. to be party to commercial relations. The commercial name of the sole trader should include the individual's first and last name, and the acronym "ET".

Sole traders would be deleted from the Commercial Register upon the following circumstances:

- Upon the individual's written request in case of closure of activity or permanent establishment abroad;
- In case of death of the individual: upon request of the heirs;
- In case the individual's legal capacities have been restricted, e.g. due to mental disease, upon request of the trustee.

Companies

Limited Liability Companies (OOD)

Limited liability companies can be established by one (in the case of sole-ownership limited liability company, EOOD) or more individuals/legal entities provided that all requirements set out in the law are complied with.

Limited liability companies are incorporated further to resolution of the ownership interest holders and recording in the Commercial Register with the Registry Agency.

An OOD's minimum capital is fixed to BGN 5,000 to be allocated in shares (ownership interests) of value not less than BGN 10. At least 70 % of the authorized capital per the Articles of Association should be paid in prior to the commercial registration. Capital instalments can be made by the shareholders either *in cash* or *in kind*, whereas a special procedure for the evaluation of the in-cash contribution is provided for by the law.

An OOD is governed by its Articles of Association (AA) executed by the shareholders. The AA includes information on the name, seat and address of management, scope of activities, managing bodies, books of the OOD, etc. The AA is deposited with the Commercial Register.

In Bulgaria there is no practice that shareholders arrange their relations by a separate Shareholders' Agreement (in addition to the AA). However, such an agreement is not prohibited and can be executed, provided that its stipulations do not inflict imperative provisions of the law.

The governing bodies of an OOD are as follows:

- The General Meeting of its Shareholders; and
- One or more Managers appointed by the General Meeting.

The General Meeting of the Shareholders is the OOD's supreme managing body and is competent to resolve on the most important corporate issues, e.g. changes in the authorized capital, assignment of Managers, opening and closure of branches, adoption of the annual financial statements. The Shareholders are summoned to sessions by the company's Manager. Voting rights are proportionate to a shareholder's participation in the registered capital unless otherwise agreed to in the Articles of Association. The General Meeting takes most of the decisions with simple majority (i.e. more than 50% of the capital). The unanimous vote of the shareholders is required for the General Meeting to resolve on increase or decrease in the capital; and $\frac{3}{4}$ of the capital is necessary for decisions on: (i) changes in the Articles of Association, (ii) acceptance of and expulsion of shareholders, and (iii) resolutions for additional in-cash contributions.

The Commercial Act allows the General Meeting of an OOD to oblige its shareholders to make additional in-cash contributions proportionate to their participation in the capital, which would serve for the cover of losses or to satisfy the company's temporary need of funds. These contributions are granted to the OOD as a loan and the General Meeting can resolve on

the payment of interest thereon. Consequences for a shareholder who has failed to comply with the decision for additional contributions are the same as in case he/she has failed to pay its main contribution to the company's capital and may lead to his/ her expulsion from the OOD.

An OOD's Manager is nominated by the GM of the shareholders. He/she is responsible for the day-to-day management of the company and for the implementation of the resolutions of the General Meeting. The Manager is also the OOD's statutory representative to any third parties. In case there is more than one manager, each of them is entitled to represent the OOD independently unless the AA or the resolution of the GM of the shareholders is provided otherwise. No other restrictions of the Manager's representative power would be applicable vis-à-vis third parties. The name of the Manager is recorded in the Commercial Register.

The personal element involved in the relations among the shareholders in a limited liability company is stronger than the one in a joint stock company. Therefore, a special procedure is applied for the transfer of shares from a shareholder to a non-shareholder. Shareholders in an OOD have the right and the obligation to take part in the company's management and activity, to be informed and to check the company's books and financial statements.

The Articles of Association of an OOD can provide for an additional supervisory body in the company, a named Controller. The Controller is assigned to supervise the observance of the Articles of Association, and the management of the company's property. The Controller should report to the General Meeting directly.

In the case of a sole-ownership limited liability company (EOOD), the sole owner of the capital has the competence of the General Meeting of the Shareholders. The sole owner can manage and represent the EOOD personally or through a Manager. An EOOD would be terminated with the death of the sole owner, unless his/her heirs decide to continue the company's activity. Should the EOOD be property of a legal entity, the EOOD would be terminated upon winding up/termination of its owner.

Limited liability companies are not statutorily obliged to form special reserves. There is no impediment, however, for decision on the establishment of reserves to be adopted by the General Meeting of the Shareholders/Sole Owner of the Capital or provided for in the Articles of Association.

Joint stock companies

A joint-stock company can be set up by one (“EAD”) or more individuals/legal entities (“AD”).

The set up of an AD should be resolved by a Meeting of the Founding Shareholders at which the subscription of shares in the capital and adoption of the by-laws take place. The newly incorporated company comes to live further to its recording in the Commercial Register.

An AD’s minimum capital can amount to BGN 50,000 divided into shares, each of nominal value not less than BGN 1. At least 25 per cent of the capital should be paid in prior to the commercial registration.

The share participation in an AD can be evidenced by the following types of shares:

- Registered shares – the name of the owner is indicated on the share certificate and in the company’s Book of the Shareholders. Such shares can be transferred by means of endorsement. The transfer would bind the company after being recorded in the Book of the Shareholders.
- Bearer shares – title there over is evidenced by the mere physical possession of the share certificate.
- Preference shares – incorporate some special rights to their holders (e.g. guaranteed dividend, liquidation quota, etc.).

The AD is the only legal entity under the Bulgarian law that is allowed to issue bonds. From the company’s incorporation until the issuance of paper form shares, the shareholders evidence their capacity by temporary certificates issued against the contributions to the capital.

A joint stock company can be managed through a:

- one-tier system of management, i.e. by the General Meeting of the Shareholders and a Board of Directors (3 – 9 members); or a:
- two-tier system of management, i.e. by the General Meeting of the Shareholders, Managing Board (3-9 members) and Supervisory Board (3-7 members).

The General Meeting of the Shareholders is the AD’s supreme body, competent to resolve on the most important issues related to the corporate operation of the company (e.g. changes to the capital, amendments and supplementation to the by-laws, adoption of the annual financial statements). The General Meeting consists of all shareholders with voting rights. In the case of a sole-ownership joint stock company (EAD), the sole owner of the capital has the competence of the General Meeting.

The General Meeting of the Shareholders should be held at least once per year (*Regular General Meeting*). The General Meeting should take place at the seat of the company or alternative venue in the Republic of Bulgaria. The General Meeting is summoned by the company's managing body, respectively by the Board of Directors, or Managing Board/Supervisory Board. Shareholders in possession of more than five per cent of the authorized capital can request the summoning of a General Meeting. Should their request not be satisfied within three months, the General Meeting would be convened by the respective District Court.

The invitation for the GM should be published in the State Gazette at least 30 days prior to the scheduled date of the session. All materials for the meeting should be at the disposal of the shareholders in the office of the company. Should no bearer's shares be authorised, and if allowed by the by-laws of the company, the managing body can send written invitations to the shareholders, and not publish the invitation in the State Gazette.

The law provides for statutory requisites of the invitation to a GM. It should include information about the date, hour, place, agenda and specific proposal for resolutions of the session. In case members of a managing body would be elected, the names and addresses of the proposed individuals/entities should be mentioned.

The GM takes decisions with simple majority of the represented capital. Special majority of 2/3 of the represented capital is necessary for amendment of the by-laws, changes in the capital, and winding up of the company. Qualified majority of 3/4 of the represented shares is required for: restricting the rights under preference shares; capitalization of profit; transformation of the company; and for continuing the operation of a wound up company. The GM sessions and the decisions taken should be documented in Minutes under the agenda and a list of the attending shareholders to which the documents are attached. Upon request of a shareholder or a board member, a Notary Public can be invited to the session and prepare a Notary Deed for the General Meeting.

Only the GM or, if the by-laws allow, the managing body by unanimous vote, can resolve on the following transactions:

- transfer or granting the use over the entire commercial enterprise;
- disposal of assets amounting to more than half of the company's assets according to the latest certified annual financial statements;

- undertaking of liabilities or provision of securities the amount of which during the current year exceeds half of the company's assets according to the latest certified annual financial statements.

Board members in an AD can be individuals or legal entities through their authorized representative. No member to a board can be an individual who: (i) has been member to a board of a company declared insolvent during the two years preceding the resolution of the insolvency and unsatisfied creditors have remained; (ii) does not comply with other requirements set for in the by-laws. An individual proposed for member to a board should prior to his/her appointment notify the shareholders on being an unlimited partner, or for holding more than 25% of another company's capital, and for his/her participation in the management of other entities.

Quorum of at least half of the board members is needed for the meetings. Decisions are taken by simple majority unless otherwise provided for in by-laws or the law. The by-laws can allow boards to adopt resolutions *per rollam* provided that all board members state their consent in writing. Minutes of the board meetings should be kept and preserved in a special book of the company.

Board members are jointly liable for damages to the company resulted from their activity. Therefore, a guarantee should be deposited by the board members to the company's bank account amounting to not less than three-fold their gross monthly remunerations. Claims against board members can be brought by shareholders of more than 10% of the company's capital.

Joint-stock companies are obliged to form and maintain Reserve Fund of at least one tenth of the authorized capital. The Reserves Fund could be used only to cover current and prior year losses. The company is free to capitalize any reserve exceeding this amount.

Not later than the end of February each year, the Board of Directors/Managing Board should prepare annual financial statements and report on the activity of the AD for the preceding year. The annual financial statements are subject to verification and certification by a certified auditor appointed by the General Meeting. The financial statements and the report for the activity should be further approved by the GM. Dividends can be distributed only if the company's net property per the financial statements less dividends exceeds the cumulative amount of the authorized capital and the reserve funds. Dividends can be up to the

amount of the profit for the respective year, undistributed profit from previous years, the portion of the Reserve Funds and the other funds exceeding the minimum established by the law or by the Articles of Incorporation decreased by the uncovered losses from previous years and the mandatory accruals for the Reserve Funds and the other funds of the company.

Public joint stock companies

An AD that has issued shares following public offering at a stock exchange market or has further registered a stock edition for trade at a regulated market of securities or has more than 10,000 shareholders on the last day of two successive calendar years is a “Public Company” under the *Public Offering of Securities Act (POSA)*. Only a joint stock company can be a public one, and it is recorded in a special register with the Commission on Financial Supervision. Such companies are subject to certain restrictions and reporting requirements. Special rules apply to the procedure for summoning a General Meeting of the Shareholders, the majority for taking decisions, membership of a managing body, etc. Public joint stock companies can apply for delisting from the Register of Public Companies provided that the conditions of the POSA are fulfilled.

Special investment purpose companies

Companies of special investment purposes are joint stock companies formed to invest the funds acquired through issuance of shares in real estate or receivables (“securitization” of real estate/receivables). This type of companies is regulated by the Special Investment Purpose Companies Act.

Pension insurance joint stock companies

Joint stock companies can be set up with the purpose of establishing and operating pension funds. Such joint stock companies should be licensed for their activity by the Commission on Financial Supervision. The regulation applicable to pension insurance companies is provided for in the Social Security Code.

Partnerships

The Bulgarian Commercial Act recognises the following types of partnerships:

- General partnership (in Bulgarian Sabiratelno Drujestvo, SD) – the partners are fully and jointly liable for the entity’s liabilities. Foreign nationals should have permanent establishment in Bulgaria in order to be partners in a general partnership;
- Limited partnership (in Bulgarian Komanditno Drujestvo, KD) – some partners are fully and jointly liable for the entity’s

liabilities and the remaining partners are liable up to the value of their share contribution. Foreign nationals should have permanent establishment in Bulgaria in order to be unlimited partners in a KD;

- Partnership limited by shares (in Bulgarian, Komanditno Durjestvo s Aktzii, KDA) – this type of entity is a mixture between a KD and an AD, as the limited shareholders are issued certificates against their contribution to the capital. The provisions of the Commercial Act regarding joint stock companies (AD) apply to KDA, including the minimum authorized capital requirement - BGN 50,000. The KDA is managed by a General Meeting where only the unlimited partners have voting rights and a Board of Directors consisting of the limited partners.

Joint ventures

Two or more persons can conclude a joint-venture agreement in order to combine their efforts for the achievement of a mutual business objective. Joint ventures are not legal entities but unincorporated partnerships. The partners input capital/in-kind contributions, which become joint ownership of all participants. Joint ventures are regarded for separate entities for tax purposes and are subject to corporate income taxation.

Co-operative societies

A co-operative society is a voluntary association for business activities of at least seven individuals. The co-operative society is a legal entity the number of members and capital amount of which can vary. It is managed by a General Meeting of Co-operators, Management Board, and a Controlling Board. The cooperative's Chairman, represents it before third parties. Seven co-operative societies can form a co-operative union.

Consortia

The Bulgarian Commercial Act defines the consortium as a group of traders united to perform certain activity. A consortium can be organized either as a commercial company (e.g. limited liability or joint stock company), or as a joint venture whereas the civil contractual legislation would apply to the relations between the partners in the consortium.

Holdings

A holding can be a joint-stock company, a partnership limited by shares, or a limited liability company purposed to have share participation or manage other companies and without further obligation to perform itself commercial activity. At least 25% of the holding's capital should be invested in its subsidiaries. Subsidiaries are companies in which the

holding has or controls directly or indirectly not less than 25% of the shares, or has the power to appoint the majority of the managing body's members.

Branches of foreign legal entities

Any foreign entity registered under its domestic law with the right to carry out commercial activity can open a branch in Bulgaria. The branch should be recorded with the Commercial Register. Branches are not regarded as separate legal entities. However, branches of foreign companies are obliged to keep financial books, and prepare separate financial statements. Commercial transactions between foreign entities through their branches in Bulgaria and local persons are governed by the rules applicable to local persons. In 2005 the Commercial Act was amended in order to implement Eleventh Council Directive 89/666/EEC. The amendments detail the requirements for registration of branches in Bulgaria.

Representative offices

A foreign legal entity can open a representative office (RO) in Bulgaria. Representative offices are not separate legal entities and have no legal capacity to undertake business activities. ROs can only advertise and promote the activity of the parent company, liaison with possible clients in Bulgaria, etc. ROs should be registered with the Bulgarian Chamber of Commerce and Industry, and are subject to BULSTAT registration. All transactions concluded by the foreign entity with local parties for the purposes of the trade representation are subject to local regulations.

Mergers and acquisitions

Types of reorganization:

Previously there were four types of reorganizations:

- acquisition – one or more existing companies acquired by another existing company;
- mergers (consolidation) – a new company created by two or more existing companies merging with one another;
- divisions – one company, after being wound-up without going into liquidation, transfers its assets and liabilities to two or more new companies;
- spin-offs – one company, without being wound-up, transfers part of its property to another company.

Two new forms of reorganization, unknown so far to the Bulgarian legislation, were added by the latest amendments to the Commercial Act:

- spin-off of a wholly owned enterprise– one company transfers part of its assets to one or more sole-ownership limited liability

or joint stock companies, whereas the transformed company becomes their sole owner;

- transfer of property to the sole owner– a sole-owned company is wound up without liquidation and its property is fully transferred to its owner provided that he is registered as sole trader.

The Commercial Act provides for a very detailed procedure to be followed in view of the reorganization of corporate entities, which includes the following major stages:

- conclusion of written agreement for transformation between the participating commercial entities, or preparation of a plan for transformation in the cases of division and spin-off;
- the managing body of each of the participating companies should prepare a report providing reasoning of the concluded agreement/prepared plan for transformation;
- presenting the agreement/plan and the report of the managing body to the Commercial Register;
- review and report on the reorganization by a registered auditor;
- approval of the agreement/plan and all related changes by the General Meetings of the involved companies, taken with a certain qualified majority (e.g. 3/4 of the represented capital for joint stock companies);
- filing the resolution for reorganization with the Commercial Register;
- resolution of the registry agency on the reorganization.

The reorganization is effective when it is recorded in the Commercial Register.

Consequences and principles

The reorganization results in the legal succession between the transformed and acquiring/newly established companies of all rights and liabilities. The acquisition is based on the following principles:

- The shareholders in the companies retain their share portion, even through monetary equalization.
- The property of the reorganized company would be managed separately from the property of the adopting/newly established company for a six month period after the resolution for the reorganization, so that creditors' interests are guaranteed.
- Shareholders whose legal position in the reorganized company would be changed and have voted against the reorganization at

the General Meeting can leave the reorganized company by submitting a notarised notice. The leaving shareholder is entitled to receive the amount of his/her share prior to the reorganization.

Competition rules in relation to mergers and acquisitions

Competition implications apply in case the total turnover of the companies participating in a merger or acquisition exceeds BGN 15 million for the year preceding the merger/acquisition. The preliminary permission of the Competition Protection Commission is required in such cases, or the Commission can impose monetary sanctions and unwind the transaction. Permission is granted to mergers and acquisitions, which would not lead to limitation of the competence at a certain market but are purposed to production modernizations, market, improvement of Bulgaria's competitive advantages at international markets, etc.

Involvement of public companies in a merger or acquisition

Mergers and acquisitions involving at least one public company must be done in accordance with the Public Offering of Securities Act (POSA), which would be applicable together with the Commercial Act.

Competition

The *Competition Protection Act* and the *Rules for the Operation of the Competition Protection Commission* ("CPC") are the main regulative acts in the field of competition. The Competition Act prescribes the restrictions on commercial entities designed to ensure the regular operation of the free market and the protection of consumers. The law was considerably revised in the beginning of 2003 in view of its harmonisation with the *acquis* and is currently fully in line with the European standards.

The following practices and agreements are prohibited under the protection of competition:

Agreements and concentrated practice

Traders are prohibited to negotiate and make agreements, which may result in preventing, restricting or distorting competition in the relevant market (e.g. determining prices, distribution of markets). The prohibition (Art. 9 of the Competition Protection Act) is broadly formulated and includes both formal stipulations and oral agreements. In addition, agreements are prohibited both between competitors in one and the same market (the so called "horizontal agreements") but also between participants in different fields ("vertical agreements", e.g. stipulation between a producer and a supplier). Exemption from the prohibition is

provided for agreements with immaterial effect, i.e. concluded between enterprises the total market share of which is not more than 10% in case of vertical agreements and not more than 5%, in the horizontal agreements' case.

The CPC should be notified within 30 days from the conclusion of agreement, which may impact competition at a certain market. The regulative authority is competent to allow or ban the application of such transactions based on competition impact assessment.

Abuse of dominant position

Companies are considered of dominant or monopolistic position should their market share, financial resources and business relations allow them to influence competition. Companies with more than 35% market share are presumed to be of dominant position. Such entities are forbidden from activities, which may directly or indirectly impose prices, limit production, urge contracting parties into undertaking additional liabilities, etc. It should be noted that the dominant/monopoly position itself is not prohibited by the law.

Concentration of business activity

Concentration of business activity is the acquisition or merger between two independent companies, the acquisition of control over a separate enterprise, the establishment of joint venture, etc. Companies participating in a concentration of business activities should notify in advance the CPC in case that their combined turn-over for the preceding year in the territory of the country exceeds BGN 15 million. The CPC should within one month of the notification perform an assessment of the concentration and issue a decision by means of which to allow or forbid the transaction.

Unfair competition

The Competition Protection Act prohibits all actions that contradict the *bona fide* commercial practice and is intended to damage the interests of competitors. Several examples are listed in the law:

- Damaging a competitor's good reputation;
- Providing misleading information;
- Imitation;
- Disclosure of confidential information

The CPC is the authority assigned to control the observance of the competition rules and to impose sanctions in case violations are identified. The penalties amount between BGN 5,000 to BGN 300,000 for first violation and BGN 100,000 to BGN 500,000 should the violation be committed again.

Concession regime

As of May 2006 there is a new Concession Act (CA) which harmonizes the legislation in the area with European standards. The law introduces a new definition of the term 'concession' which significantly differs from the old one. As per the definition of the CA a concession is the right to operate a facility of public interest, made available by a grantor to a merchant (the concessionaire), in exchange for the latter's obligation to build and/or manage and maintain the facility subject to the concession at his/her own risk.

According to its object, there are three types of concessions - public works concession, service concession, and mining concession. A concession is granted on the basis of a long-term agreement in writing involving a defined material interest, executed between the grantor and the concessionaire.

Public procurement

Public Procurement is regulated in Public Procurement Act (PPA). As per the law, subject matter of public procurement is supply of goods through purchase, lease, rental with or without option to buy, or hire purchase, as well as all preliminary operations, necessary for the actual use of the products, etc. (Article 3 of the PPA).

Contracting authorities can be state authorities, the President, and other institutions, bodies governed by public law, public companies and any combinations, merchants and other persons which are not public companies, where carrying out one or several of the activities covered by law. The contracting authorities are obliged to conduct a public procurement award procedure when the grounds provided in the law exist.

Any Bulgarian or foreign natural or legal person, as well as any combination of such persons, may participate in a public procurement procedure. Public procurements can be awarded by conducting an open procedure, a restricted procedure, a competitive dialogue and negotiated procedures. Any decision, action or omission by the contracting authorities in a public procurement award procedure until conclusion of the contract or of the framework agreement is subject to appeal as to the legal conformity before the Commission for the Protection of Competition.

5. Taxation

Personal income tax

Scope

Bulgarian residents under the Personal Income Tax Act are persons who:

- have permanent home in Bulgaria, or
- spend in Bulgaria more than 183 days within each 365-day period, or
- are sent abroad by the State of Bulgaria and members of their families, or
- have their centre of vital interests in Bulgaria.

Bulgarian residents are subject to income tax on their worldwide income. Non-residents are taxed on their Bulgarian source income only. The tax year for personal income tax purposes is the calendar year.

Rates

Since January 1, 2008, 10 % flat income tax rate has been introduced. The only exception applies to income earned as sole proprietor, which is taxed at 15 %.

Employment Income

Tax on employment income is withheld by the employer and is remitted to the state budget on a monthly basis. Emoluments from employment include salary, bonuses, benefits-in-kind, inflationary compensation, etc. Travel and accommodation business trip expenses covered by documents as well as the amount of per diems up to the double amount of the statutory per diems are tax exempt. Furthermore, certain social benefits provided by employers are tax exempt, when taxed at the level of the employer.

In addition, the employer has the obligation to recalculate the final personal income tax liability due on an annual basis.

The salary tax is calculated on the gross amount of income received in the respective month, after the statutory deductions, which are as follows:

- mandatory social security and health insurance for the account of the individual;
- voluntary pension and voluntary unemployment insurance for an amount up to 10% of the gross income amount;
- life insurance and voluntary health insurance for an amount up to 10% of the gross income amount;

- donations to certain institutions, up to 5% of the annual taxable base after the above deductions and up to 50% for donations in favour of fund for children medical treatment.

Alternatively, the tax relief for voluntary pension and unemployment contributions, for life and insurance and for voluntary health insurance, may also be utilized as a benefit upon the annual recalculation of the taxable income (mandatory for each employer) or upon filing of the annual tax return.

Non-employment income

Royalty and interest income, income from share participations and income from the sale of movables, etc. is taxed annually.

Directors of companies rendering services under management contracts are also taxed following the non-employment rules applicable to income.

In addition, individuals performing economic activity as sole traders are required to adjust their taxable income under the rules stipulated in the Corporate Income Tax Act.

Individuals receiving other than employment income i.e., freelancers, rental income are liable to monthly advance payments at 10 % calculated on the gross amount of the income received, after the statutory, which deductions are as follows:

- 40 % of any income from agricultural, forestry and fishery activities;
- 40 % of any income from intellectual property exploitation or sale;
- 25% of any free-lance income;
- 10 % of any rental income;
- Mandatory social security and health insurance for the account of the individual; voluntary pension, voluntary unemployment insurance for an amount up to 10% of the gross income amount after statutory deductions;
- Life insurance and health insurance for an amount up to 10% of the gross income amount after statutory deductions;
- Donations to certain institutions, up to 5% of the annual taxable base after the above deductions and exceptionally up to 50%% of the annual taxable base after deductions for donations in favour of fund for children medical treatment.

Individuals are obliged to report their income by filing an annual tax return and pay the annual tax as per the tax return by 30 April of the

following year. In case they earn employment income only, there is no obligation for filing an annual tax return.

Patent tax

Individuals operating hotels and restaurants, as well as individuals involved in retail trade, different types of craftsmanship, etc., with an annual turnover for the previous year not exceeding BGN 50 thousand and who are not registered for VAT purposes, with the exception of registration for intra-Community acquisitions, are liable to a one-off annual patent tax under the Local Taxes and Fees Act. If during the year the turnover exceeds BGN 50 thousand the individual is liable to personal income tax and the patent tax paid is treated as tax credit.

The tax is determined by each Local Council on the basis of certain criteria relevant for the corresponding types of business and within the limits set in the law. At the beginning of each year the payers of the patent tax should submit a declaration, stating all circumstances necessary for determining the applicable tax.

Capital gains

Capital gains realized from the disposal of certain assets are subject to personal income tax, namely:

- income from the sale of immovable property; however, income from the sale of one residential property is not taxable, regardless of the date of acquisition of the said property, whereas income from the sale of up to two immovable properties, as well as of any number of agricultural and forest properties is not taxable only if more than five years have elapsed between the date of acquisition and the date of sale or exchange;
- income from the sale of motor, air and water vehicles, when sold after one year as of the date of acquisition;
- income from the sale of shares and any kind of securities;
- income from the transfer of a sole trader's enterprise.

Exemptions

Under the current regime the following types of income are tax free: pensions, scholarships, child allowances, remuneration paid to foreign diplomats and commercial representatives by their home country, interest on bank and savings deposits in local banks, income from lotteries, certain elements of compensation under insurance contracts, etc.

Corporate income tax

Scope

Bulgarian corporate income tax is imposed on the profits of the tax liable persons according to the Bulgarian Corporate Income Tax Act. Tax liable persons are all Bulgarian companies and other corporate entities registered in Bulgaria, as well as non-incorporated entities, including partnerships, for their profit from business activities. Foreign legal entities are taxed on their profit from activity exercised in Bulgaria, including via a permanent establishment. For the purposes of taxation of income sourced from Bulgaria, any non-resident organizationally and economically distinct formation (trust, fund and other), which independently carries out economic activity or performs and manages investments, shall likewise be a taxable person where the owner of the income cannot be identified.

Special taxation regimes apply for certain activities, e.g. gambling.

Shipping companies may opt for taxation based on the tonnage of the operated ships applying 10 % tax rate. Once the shipping companies have elected to be taxed on the tonnage, they shall apply this taxation regime at least for a 5-year period.

The corporate income tax rate is 10 %.

Determination of taxable profit

In the general case, the annual accounting profit for the fiscal year (coinciding with the calendar year), defined as a difference between total income and total expenditure according to the Bulgarian Accountancy Act, is adjusted for tax purposes to form the taxable profit, which is subject to corporate income taxation.

Tax liable persons should file their annual Corporate Income Tax Return and pay the corporate income tax due for the fiscal year not later than 31 March of the following year.

Depreciation

Companies must prepare and keep tax depreciation plan. Bulgarian tax depreciation is applied on a straight-line basis as illustrated in the table below. The accrual of tax depreciations of an asset should be discontinued when the said asset is not in use for a period longer than 12 months.

	Asset categories	Annual depreciated rate %
I	Fixed buildings, including buildings held as investment property, facilities, communication devices, electricity carriers, communication lines	4
II	Machines, manufacturing equipment and apparatus	30 or 50**
II	Transportation vehicles, excluding automobiles, coverage of roads and aircraft runways	10
IV	Computers, peripheral devices, software and the right to use software, and mobile phones	50
V	Motor vehicles	25
VI	Intangible and other tangible assets which are legally protected for a limited period of time	Depending on the period in which the legal protection applies (100/years of protection) but not higher than 33 1/3
VII	All other depreciable assets	15

* No depreciation allowance is available for land, forests, cultural monuments and goodwill.

** The annual depreciation rate applicable for the assets of category II shall not exceed 50 %, where the following conditions are simultaneously met:

- The assets are part of an initial investment;
- The assets are new and have not been used before their acquisition

Losses

Losses can be carried forward consecutively in the next five years.

Exceptionally, in case the loss originates from an EU or EEA country in relation to which Bulgaria applies the credit method for the avoidance of double taxation, such loss can be offset against domestic source profits of the same person. If the loss originates from an EU or EEA country in relation to which Bulgaria applies, on the basis of a Double Taxation Treaty concluded with that country, the exemption method for the avoidance of the double taxation, then such loss can be offset against domestic profits only if the permanent establishment in the other country, which caused such loss has ceased to exist.

Loss carry-back is not allowed.

Overseas aspects

Treaty relief may be available to avoid double taxation on foreign source income of Bulgarian legal entities. Generally Bulgaria follows the exemption method for the avoidance of double taxation of income from branches and real estate property located in Treaty countries.

Groups of companies

Bulgaria does not currently have any special legislation for the taxation of groups.

Tax year

In all cases, the tax year is the calendar year.

Returns and payments

All companies (including branches) must submit to the local tax office an annual tax return accompanied by a Balance Sheet, a Profit and Loss Statement and all other components of the Financial Statement, as well as a copy of the report under the Independent Financial Audit Act when applicable. The annual tax return should be filed and the annual tax be paid not later than 31 March of the year following the year to which it relates.

Companies and entities subject to corporate income tax make monthly advance tax payments, calculated on 1/12th of the annual taxable profit declared for the previous year, updated with a special coefficient for the corresponding year. For the period of 1 January through 31 March, the tax base for the monthly advance payments is 1/12 of the company's taxable income for the tax year two years before the current tax year. For the period of 1 May through 31 December, the tax base is 1/12 of the taxable income for the preceding tax year. For April the tax base of one-twelfth of the taxable income for the preceding tax year should henceforth be adjusted by three times the difference of this amount from the monthly advance payment for the period 1 January through 31 March, which is calculated on the basis of 1/12 of the results two years ago. Depending on whether the taxable income two years ago was lower or higher than the taxable income of the preceding year, the said adjustment is effected through a corresponding increase or decrease of the tax base.

Monthly instalments so determined may be reduced by submitting a special declaration in the case where the prepayments are expected to significantly exceed the anticipated final annual corporate tax liability.

If the taxable profit for the preceding year is a negative or zero, the advance instalments are due quarterly on the basis of the accumulated profit for the respective quarter of the current year, whereas for the last quarter no quarterly advance tax payment is due.

The advance instalments are calculated at a rate of 10%.

Newly established companies and companies with sales of less than BGN 200 000 (around EUR 100 000) for the preceding tax year are not obliged to make advance corporate tax payments in the relevant year.

Alternative corporate taxes

Certain additional alternative monthly corporate taxes were introduced in 1998. In their substance, these are not taxes on income or profits, but are taxes levied on certain categories of expenditure in the course of the fiscal year, as precondition for their deductibility for the purposes of the final annual corporate income taxation.

Expenses subject to the 10% one-off tax include: representation related expenses, expenses on benefits in kind provided by the employer to its employees, expenses incurred for the operation of motor vehicles used to service management activities.

Thin capitalization rules

Thin capitalization provisions regulate interest tax deductibility on certain types of interest expenses such as interest on loans from related and non-related parties; financial lease from related parties; bank loans from related parties or guaranteed by related parties.

Should the debts of a company to shareholders, third parties and/or to banks of the debtor's group of companies or from bank loans guaranteed by related party, exceed three times the Company's equity, then thin capitalization related interest tax deductibility restrictions are triggered.

Specifically, tax deductibility for interest expenses exceeding interest income is limited to 75% of EBIT (accounting result before interest expenses and interest income). In case the EBIT is a loss, the entire amount of the interest expense is considered non-deductible. Capitalized interest expenses deducted through the depreciation of the asset acquired, are not included in the thin cap related add – back.

The thin capitalization add-back is a timing difference and the Bulgarian thin capitalization rules allow for a five-year carry forward of such portion of the interest.

Withholding tax on cross border payments

A five per cent withholding tax is levied upon payment of dividends or liquidation quotas to non-resident persons, as well as resident individuals or resident legal entities, which are not merchants, including any municipalities. Thus dividends distributed to a parent company/its permanent establishment, resident of a member state by its subsidiary in Bulgaria shall not be taxed at source, provided the parent company has a minimum holding of 15% in the capital of the Bulgarian subsidiary and maintains that holding for an uninterrupted period of at least two years.

A 10% withholding tax applies to the accrual for payment in favour of foreign persons of income from:

- royalties;
- technical assistance and consultancy fees;
- management services;
- interest (including interest under financial lease); tax exempt are interest on bonds traded on an regulated Bulgarian or EU member country stock market;
- rent (including income from operational lease as well as any other income from the letting of use of movables);
- franchising and factoring;
- capital gains from the alienation of immovable property, shares and stakes, securities and financial assets.

Bulgaria has quite a wide network of Double Taxation Treaties that may significantly reduce or eliminate the withholding tax burden upon certain of the above items of income. However, treaty provisions may not be automatically applied. The foreign person taxable at source in Bulgaria should follow an advance tax clearance procedure, in order for Treaty relief to apply.

Transfer pricing

There are anti-avoidance and transfer pricing rules under the Corporate Income Tax Act, which require transactions between related parties or between non-related parties to be carried out on an arm's length basis. These rules also apply, mutatis mutandis, to any flows between a permanent establishment and other foreign divisions of the same enterprise of a non-resident person, conforming to the specifics of the permanent establishment. There is no specific transfer pricing documentation requirements. However, it is the taxpayer and not the tax authorities who must prove that transactions are negotiated at market value.

Value added tax

Scope

The standard VAT rate is 20%.

Persons registered for Bulgarian VAT purposes should charge VAT upon all supplies of goods and services with a place of supply in the territory of Bulgaria, except for:

- zero-rated supplies (e.g., intra-Community supply of goods, the supply of goods which are dispatched or transported from a place within the territory of Bulgaria to a destination in a third country or territory, by or for the account of the supplier, supplies related to international transport); and
- exempt supplies (e.g., related to land, except for regulated plot; sales of old buildings, financial services, insurance and re-insurance services; social security and health insurance services; medical care; education services; donations; gambling, etc.). The reporting period for all registered persons is one month.

Registration for VAT purposes

The provision of the following supplies leads to the obligation for compulsory VAT registration:

- VAT-able supplies (including zero-rated supplies) and financial and insurance services when related to the major activity of the person with a total value of at least BGN 50,000 accumulated within a period not longer than 12 months, result in an obligation for compulsory VAT registration;
- Supplies of goods which are installed and/or assembled by or on behalf of the supplier, irrespective of the turnover;
- Distance sales of goods exceeding BGN 70,000, where of the place of transaction is within the territory of the country under the terms of distance selling;
- Intra-Community acquisitions exceeding BGN 20,000.

Optional VAT registration

Any taxable person, for whom the requirements for compulsory registration do not apply, can register under the Bulgarian VAT Act and hence recover the VAT suffered for the activity he gets VAT registered for. Foreign entities not having a local branch can register for Bulgarian VAT purposes only through a VAT agent (i.e. a local individual or company without any outstanding public debts).

VAT recovery

General rules

The excess of input VAT over output VAT for a given month is offset against VAT payable in the next three months. The excess which is not offset is recoverable. Shorter refund periods without offsetting apply for exporters and big investors.

The right to VAT credit can be exercised if the following requirements are satisfied:

- the goods or services obtained by the registered person will be used for the provision of taxable supplies;
- the registered person possesses proper documentation;
- the right is exercised within three months after the month of issuance of the document.

Specific Provisions

Taxpayers are entitled to VAT credit for assets acquired before the date of their VAT registration, if they are still available at the date of the VAT registration.

Foreign EU entities may recover input VAT under the conditions set in the Bulgarian tax legislation implementing the 8th EU VAT Directive.

Foreign non EU entities may also recover Bulgarian VAT under the conditions of the Bulgarian tax law implementing the 13th EU VAT Directive if they are residents of a country included in the list of countries providing reciprocal refunds to Bulgarian entities.

A New Tax and Social Security Procedure Code was enforced in Bulgaria, effective 1 January 2006. This is the first attempt for codification of the tax material and procedure norms related to taxation and social security legislation. The Tax and Social Security Procedure Code regulates the registration for tax purposes, the procedure for assessment, securing and collection of taxes and other state and municipal public receivables as well as the appealing procedure. A new administration, named "National Revenue Agency" launched on 1 January 2006 combining the functions of the tax administration and the state social security audit division of the National Social Security Institute.

Customs tax

No Customs Tax exists in Bulgaria. For Customs Duties see section C.8.

Stamp duty

There are no applicable Stamp Duties in Bulgaria.

Excise duty

Excise duty is levied by producers and importers of excisable goods listed in the Bulgarian Excise Tariff. These include: alcohol, tobacco products, luxury vehicles, electricity, petrol, etc. As of January 2008, coffee and coffee extracts are excluded from the scope of products subject to excise duties.

Special excise duty deferral payment regimes may apply (e.g. Tax Warehouses) for products not consumed in Bulgaria.

Custom duties estate transfer tax (RETT)

Bulgaria applies the principles of the International Harmonised Commodity Description and Coding System and the EU Combined Nomenclature.

Goods imported into Bulgaria are subject to:

- Customs duty;
- Excise duties (if applicable) and
- 20 % VAT, unless the goods are VAT exempt.

The Customs Tariff and its annexes provides for the following basic types of rates:

- Conventional rate – applied to commodities coming from countries to which Bulgaria granted the “Most Favoured Nation Principle” (WTO as well as other countries);
- Reduced rate – applied to commodities coming from Turkey, FYROM, Albania, Moldova, Serbia and Montenegro, Bosnia and Herzegovina and Israel;
- Preferential rate – applied under the “General System of Preferences” for commodities listed in a separate annex, coming from the developing countries (70% of the conventional rates) and from the least developed countries (suspension of rates).

Temporary duties relief

Certain customs regimes may defer, suspend or allow the refund of the customs duties and other import applicable taxes under certain conditions specifically determined by the domestic customs rules. Such temporary duty relieves that may be applied by Bulgarian customs authorities may include bonded warehousing regime, inward and outward processing relief or temporary admission regime.

Free zones

The Customs Law provides for special status of the free zones and free warehouses.

6. Accounting & reporting

Method of accounting

Bulgarian accounting and tax legislation are based on the accrual method of accounting. Cash basis is not allowed for accounting and tax purposes.

Sources of accounting principles

The Accountancy Act provides the legal framework of accounting in Bulgaria. The Law defines the application on the territory of Bulgaria of the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

IFRS includes:

- International Accounting Standards (IAS);
- International Financial Reporting Standards (IFRS) and interpretation on their application (SIC-IFRIC);
- IFRS includes also subsequent amendments and additional provisions of these standards and the interpretation of their application, future standards and their interpretations by the International Accounting Standards Board (IASB).

The following entities are obliged to prepare and present financial statements (FS) on the basis of IFRS, as endorsed by the EU:

- Credit institutions, insurance and investment undertakings, companies for additional social security and the funds managed by them;
- Enterprises issuing securities as per the Bulgarian Public Stock Offering Act.

The financial reporting framework for small and medium-sized enterprises (SME) is Bulgarian National Financial Reporting Standards for SMEs.

Annual financial statements shall be prepared and presented on the basis of the National Financial Reporting Standards for small and medium-sized enterprises by enterprises which, for at least one of the two preceding years, do not exceed the indicators under two of the following criteria:

- Balance sheet assets as of 31 December: BGN 8 million;
- Net income from sales for the year: BGN 15 million;
- Average number of personnel for the year: 250 persons.

Small and medium sized companies and the newly established companies may choose to prepare and present their financial statements either on the

basis of IFRS or on the basis of the National Financial Reporting Standards for small and medium sized enterprises. An enterprise which has, in one reporting period, prepared and presented its annual financial statements on the basis of International Accounting Standards cannot apply the National Financial Reporting Standards for small and medium-sized enterprises.

Fundamental concepts

The accounting concepts and principles followed in Bulgaria are: going concern, accrual basis, matching concept, prudence, consistency, substance over form, historical cost, true and fair presentation, non-offsetting of assets against liabilities or income against expenses, unless otherwise expressly prescribed by governing accounting rules.

Disclosure

Disclosure requirements

The financial year in Bulgaria coincides with the calendar year and ends on 31 December.

Enterprises prepare annual financial statements by 31 March of the following year.

Parent companies shall prepare and present consolidated FS by 31 March of the following year. Accountancy Act and IAS include exemption criteria for preparation of consolidated FS.

Annual financial statements are prepared in a prescribed format for SME. They consist of a balance sheet, an income statement, a cash flow statement, a statement of changes in equity and notes. Enterprises whose financial statements are subject to an audit by independent registered auditors (CPAs or specialised auditing companies - see the section below) should also prepare reports by management.

The notes to the financial statements should present information about the basis of preparation of the statements and accounting policies adopted with regard to significant transactions and events. They should also contain disclosures, which are required by applicable financial reporting framework but not included elsewhere in the main financial statements, or which are relevant and necessary for fair presentation of the accounts.

Reports by management should present information on development of a company's business, forecasts thereon, research and development activities, significant events that occurred after the date of preparation of

the annual financial statements about the joint stock companies - the share capital structure and changes during the financial year, the existence of any branches, the financial instruments used by the entity as well as the financial risk management and hedging policies and exposures for price, credit and liquidity risks. The auditors are obliged to opine on the consistency of the management report with the FS.

Special disclosure requirements apply for banks, insurance companies, investment companies and some other entities.

Reporting and filing requirements

In general, companies are required to submit annual financial statements (together with the corporate income tax return) to the Tax authorities and statistical information in a prescribed format to the National Statistical Institute by 31 March of the following year. Public companies, banks (branches of foreign banks inclusive), insurance companies, pension funds and investment funds should follow special legally defined reporting and filing requirements. For instance, banks are required to submit a number of special reports to the Bulgarian National Bank. They are also obliged to publish balance sheets and income statements in an approved format for half year reporting, in at least one main daily newspaper. Insurance companies should submit annual financial statements to the Financial Supervisory Commission together with annual statements of allocated insurance reserves and additional special format reports. Companies carrying out additional social security activities report to the State Social Security Agency.

Annual financial statements, approved by the shareholders/owners or the relevant legal body, should be published in the media (i.e. trade register, daily newspaper, relevant magazines or Internet), accompanied by the report from the management and the auditor's report, by 30 June of the following year. In case financial statements are published only on the Internet, free access to the corresponding Internet site should be available for at least 3 years after the date of publishing.

Books and records

All companies and sole traders in Bulgaria are obliged by Commercial Act to keep accounting books and records and to prepare annual financial statements. The Accountancy Act regulates the requirements for the comprehensiveness and reliability of the accounting systems; the contents, preparation and publication of the annual financial statements, the persons who prepare the annual financial statements and their eligibility to perform such a task. The Act defines the accounting documents and the

form of accounting and the frequency of the stocktaking process. Chapter six of the Act sets the rules on archiving of accounting information:

- Payroll registers should be kept for 50 years;
- Ledgers and financial statements for 10 years;
- Documentation on tax control up to five years after expiry of the prescribed term of paying up the public obligation, certified by these documents;
- Documentation on financial audit until the conduct of the next succeeding internal audit or an audit by the National Audit Office;
- Any other records should be kept for three years

Audit requirements

Unless otherwise provided for by the law, annual financial statements of the following shall be subject to an independent financial audit by registered auditors:

- Joint stock companies and partnerships limited by shares;
- Enterprises which are issuers in the meaning of the Public Stock Offering Act;
- (amended, SG No. 108/2006) credit institutions, insurance and investment undertakings, companies for additional social security and the funds managed by them;
- Enterprises for which this requirement is established by a law;
- All enterprises not mentioned in items above, with the exception of enterprises applying a simplified form of financial reporting and budget-funded enterprises.

“Enterprises applying a simplified form of financial reporting” refers to enterprises which over the current or the previous year do not exceed the indicators under two of the following criteria:

- Balance sheet assets as of 31 December: BGN 1.5 million;
- Net income from sales for the year: BGN 2.5 million;
- Average number of personnel for the year: 50.

Statutory auditors

The Independent Financial Audit Act (IFAA) provides for:

- The objectives and principles of auditing;
- The professional standards on auditing applicable in Bulgaria;
- The obtaining of CPA certificates;
- Rights, obligations and responsibilities of registered auditors;
- Status of the Institute of Certified Public Accountants (ICPA) in Bulgaria.

The profession of auditors is characterized by self-regulation and independence within the limits set by the law and professional standards.

IFAA provides that an audit should be carried out in compliance with International Standards on Auditing, according to which an auditor should issue an independent opinion on whether the financial statements of a company present fairly, in all material respects, its financial position and the results of operations and changes in cash flows in compliance with Bulgarian accounting legislation.

A statutory audit may be performed by a Bulgarian Certified Public Accountant or by a specialised auditing company registered with the ICPA in Bulgaria. A specialised audit company is a company registered under the Commercial Law in the Republic of Bulgaria, with financial statement auditing being its main object of activities, and which is:

- A general partnership with more than half of the partners are registered CPAs;
- A limited partnership with more than half of the unlimited liability partners are registered CPAs;
- A limited liability company with more than half of the votes in the General Meeting of Shareholders belong to registered CPAs and the manager (the majority of managers) of which is a registered CPA.

7. Labour

Labour law

Protection of the Bulgarian labour force and limitation of unemployment is contemplated by the authorities; therefore some special requirements apply to foreign nationals intending to work in Bulgaria.

Foreigners must obtain a work permit from the National Employment Agency before they actually come to the country for the respective position. The permit is issued for one year at maximum, and can be extended only twice (i.e. total validity of three years). An exception could be made and longer work permit to be issued for high managerial positions and some special cases of installation of foreign equipment, etc. The work permit grounds the issuance of residence permit for the foreign national, which validates his/her physical stay in the country.

The practice of the Bulgarian Employment Agency (the authority competent for issuance of work permits) regarding EU does not require work permit for EU nationals. Amendments in the legislation are expected so that the legislation, the acts of the government and the practice of the Employment Agency are harmonized in this regard.

The labour and social insurance aspects of the employment of foreign individuals in Bulgaria are governed by the domestic labour and social insurance laws unless otherwise is provided for in international treaties to which Bulgaria is a party.

Employment remunerations can be negotiated in BGN or in a foreign currency. However, the actual payment is usually performed in BGN, i.e. in the BGN equivalence of the stipulated salary, as some imperfections of the social security and tax systems do not allow effective salary payment in foreign currency.

From 1 January 2009, the minimum remuneration of all employees is fixed at BGN 240 for normal working time (i.e. eight hours per day and 40 hours per week).

Employment contracts should be concluded in writing and signed by both the employee and the employer. The employer is liable to notify the National Revenue Agency for the conclusion, amendment or termination of an employment relation.

Employment contracts can be:

- for an indefinite period;
- for a trial period – not exceeding six months;
- for a fixed term: in case of seasonal or short-term works;
- for the completion of specific assignment: when the work is preliminary limited in term and in scope, e.g. on specific projects and programmes;
- for five working days within a calendar month: whereas an employee would work only for not more than 40 hours for the same employer.

Employment contracts should stipulate on the following issues:

- position (name) and character of the job function;
- term of the employment contract;
- working time: normal working time is 8 hours per day, 40 hours per week;
- paid annual leave: not less than 20 working days;
- additional remunerations;
- notice period: not less than 30 days and not more than three months for indefinite term employment contracts; and not more than three months but not exceeding the validity of a fixed-term contract.

Employment contracts can be terminated only on the grounds explicitly listed in the Labour Code, such as:

- disciplinary dismissal;
- expiry of term (in case of fixed term employment);
- mutual consent;
- unilaterally via a prior notice in writing;
- upon initiative of the employer against compensation of not less than four-fold remuneration lastly received by the employee, etc.

Social security law

The Social Security Code is the main source of regulation in the field of social security. It also includes regulation of statutory and private pension funds. Additional provisions can be found in the Annual Budget of the State Social Insurance Act (ABSSIA), where the specific amounts of the minimum and maximum social insurance income and social security contributions are indicated.

Secured risks and compensation

The state social security provides compensation, aid and pensions to secured persons upon occurrence of the following secured risks:

- Temporary inability to work – such occurs should an employee/assignee be temporarily unable to perform his/her employment obligations due to sickness as evidenced by a medical certificate.
- Disability – invalidity should be established by a special medical committee assigned to assess the extent to which the secured person has lost his/her ability to work. The compensation or pension from the state social security is based on that assessment.
- Maternity – mothers receive compensation, granted for a period of 315 calendar days (45 prior to and 270 after the child's birth). Mothers receive monetary compensation for raising a child on a monthly basis until it reaches the age of two years.
- Unemployment – individuals who have been insured for all insurance risks during at least nine of the 15 months preceding the termination of their employment have the right to be compensated in case of termination. The compensation amounts to 60 per cent of the individual's average monthly income for the nine months preceding the termination. The maximum compensation for unemployment is determined by the Social Security Budget Act on an annual basis (BGN 220 for 2008). The compensation is due for a term calculated according to the individual's professional experience, which counts for social security purposes, the maximum term being 12 months in case of over 25 years of eligible professional experience.
- Old age – individuals acquire the right to pension upon reaching certain age and years of experience.
- Death – the relatives of an insured individual acquire the right to inherited pension upon his/her death.

Social insured persons and social insurers

The Bulgarian Social Security Code (SSC) sets for the following major groups of insured individuals for social security purposes:

- Insured for all social insurance risks – individuals who work under an employment contracts, state officials, military officers, managers, and magistrates;
- Insured for invalidity, old age and death – the free-lancers, sole traders, agricultural producers, and assignees under civil law relations. Insurers are individuals/legal entities in charge with the payment of social security instalments for their employees, assignees, etc. Free-lancers have the combined capital of insured persons and insurers as they are liable to pay their own social security instalments.

Social security income and social security instalments

Social security income is the income on which social insurance contributions are calculated and includes all remuneration and other income from working activities.

The Budget of the State Social Security Act determines social security related thresholds for payments for each calendar year, namely:

- the maximum monthly amount of the social security income (BGN 2.000);
- the minimum monthly amount of the social security income for self-insurers (BGN 240);
- the minimum monthly amount of the insurance income per main business activities and groups of professions.

Different regimes and rates apply in regards to security instalments.

Social security experience

The professional experience recognized for social insurance purposes (“social security experience”) does not necessarily match an individual’s years of employment. Social security experience is generally:

- the time during which an individual has worked under employment contract and social insurance instalments have been due or paid in;
- the time for which self-insuring individuals have personally duly paid in their social insurance instalments;
- certain specific categories of time during which no social insurance instalments have been made, namely: paid and unpaid leave for child birth and raising of a child; paid and unpaid leave due to temporary disability; unpaid leave not exceeding 30 working days in one calendar year;
- the time during which an individual has received compensation for unemployment;
- the time during which self insuring individuals which pay their insurance fees for all insurance risks except for labour accident, professional disease and unemployment have received monetary compensation for temporary disability, pregnancy and delivery and for raising of a child and the periods of temporary unemployment, pregnancy, delivery and for raising of a child during which they did not have the right of monetary compensation.

The cumulated social insurance is taken into account when computing an individual’s eligibility to pensioning, right to compensation caused by temporary disability, right to pension due to invalidity, etc. In some cases,

individuals are allowed to “buy-off” gaps in their contribution by paying social security instalments for the respective period, e.g. individuals who have reached the age for their pensioning but do not have the required length of social security experience can effect a bulk payment to cover the missing part of the statutory required length of social security experience.

Unemployment law

The Bulgarian state has undertaken to implement a persistent policy towards the stimulation of occupation and decrease of the unemployment rate. Its policy to this effect is generally ruled by the Stimulation of Employment Act (SEA). This act determines the state authorities assigned to plan and develop the activities and measures for stimulation of employment and the specific documents in which these should be incorporated. The performance of these activities is financed by the state budget.

The SEA sets out the rights and obligations of individuals seeking for employment, as well as those of employers. In order to become a beneficiary of the unemployment related state system and receive monthly compensation for unemployment from the social security fund, individuals should register as unemployed with the local divisions of the National Employment Agency. Each Bulgarian citizen, as well as each citizen of another Member State of the European Union, or of another Contracting State to the Agreement on the European Economic Area, who is actively seeking a job may register with the competent local division of the Employment Agency. On the other hand, employers willing to take part in the state’s programs for stimulation of employment should announce their vacancies to this same agency.

Pension fund law

According to Bulgarian law, pensions form a part of the general social security system and their regulation is incorporated in the Social Security Code. Payment of pension instalments and the granting of pensions and compensations are structured on three main benchmarks:

- Statutory pension insurance: all individuals are entitled to pension insurance accumulated in the state’s Pension Fund.
- Additional statutory pension insurance: additional pension insurance is statutory for individuals born after 31 December 1959. Pension insurance contributions are deposited in a universal or professional pension fund and serve for the accrual of additional pension to be received at the time of retirement. Universal or professional pension funds are legal entities incorporated by licensed pension insurance joint stock companies and registered under the Commercial Law or the legislation of another Member

State. The shareholders in the licensed pension insurance company should adopt rules for the operation of the universal/professional pension fund to specify the proposed conditions for additional statutory pension insurance, the fees and deductions to be collected by the pension insurance company, the terms and conditions for the payment of pensions and the one-off or deferred payments. Permission for the operation of universal/ professional funds are issued by the Deputy-chairman of the Committee for Financial Supervision.

- Additional voluntary pension insurance: every individual having reached the age of 16 years is allowed to make voluntary pension instalments to a fund for additional voluntary pension insurance. Such insurance would grant the respective individual the right to receive personal pension for old age, or to receive as a one-off payment the amount accrued. The persons insured under an occupational scheme for who social insurance contributions are no longer made as a consequence of their moving from the Republic of Bulgaria to another member state, preserve the rights to the same extent as for the insured persons in respect of whom social insurance contributions are no longer made but who remain within the Republic of Bulgaria.

Payments for any persons insured under an occupational scheme, as well as for any other persons holding entitlement under any such scheme are made in other member states net of the taxes and transactions charges due. Voluntary pension instalments are tax deductible.

Private pensions

Individuals who have reached the age of 16 are entitled to make voluntary pension instalments to a private fund for voluntary pension insurance. Such funds should be set up by a licensed pension insurance joint stock company and permission for their operation is issued by the Deputy-chairman of the Committee for Financial Supervision. Voluntary pension insurance funds should be registered under the Commercial Law. The General Meeting of the Shareholders of the pension insurance company should adopt rules for the organization and activity of the fund.

8. UHY firms in Bulgaria

The Company was founded in 1997 with an office of only 5 employees and ten clients on a retainer basis. From its first business steps the Company provided the services of public accountancy, where it worked with the cooperation of the reputable certified accountant Mr. Ivan Dochev. In 2000 the Company began services in the field of the public audit separately by its founder Mrs. Terziyska, who became a member of the Institute of the certified public accountants in Bulgaria. The Company approves its good standing at the Bulgarian business environment in the field of accounting, auditing and consultancy services together with the reputation of its founder Mrs. Terziyska.

In 2001 Mrs. Terziyska became a lecturer in the economy's department of the National University of Chemistry in Sofia, where she is teaching up to the present as a Chief assistant in the subject 'Accounting and finances'. In 2002 she enforces the involvement of an innovative subject in the students' educational program considering enterprise's book keeping on the software product. During the same year she became a chief lecturer in the major of International financial reporting standards and international standards of audit, which included altogether eight subjects. Recently Mrs. Terziyska obtained a doctor's degree in economy.

Along with its establishment the Company started the development of the software product- Financial Accounting software 'MIRAGE'. In 1999 the 'Mirage' was completed and released on the market. With its first recognition from the business, the product was awarded with the most valuable estimation- the first award for a software product for 1999 of the International Technical Fair, Plovdiv '99. At the present the product is already well known and very profitable for the clients.

After the successful realization of the "Mirage" on the market, in 2003 the company started with the development of software KARTELL- Enterprise planning resources. In 2006 the product is tested and incorporated in the company and now there are already three more external installations pending.

ERP KARTELL is an integrated software application of class ERP (Enterprise Resource Planning). The product is compliant with the modern management style, which requires full automation, streamlining and control of processes at the enterprise. The system works in real time with full synchronization of data among different workplaces and provides their single entry and storage in an integrated database. ERP KARTELL

offers a possibility for defining individual used access and operation rights for any of the functionalities of the system, depending on their job description of company's employees and implementation of their tasks.

ERP KARTELL system has series of advantages which ensure high efficiency of business activity. Its advantages can be summed up as follows:

- Full range of business processes in the company
- Obtaining real and well-timed information, which contributes to adequate and appropriate decisions
- Increase of labour productivity, efficiency and profitability
- User friendly interface
- Easy system adaptation towards changes in the company
- Risk free implementation at lowest possible costs
- On-going oversight of employees' work
- Browsing the pages of Internet at any time and ensuring instant information access from every corner of the world.

Technical characteristics:

- Technology- selected. NET technology ensures high quality of developed applications. This is an advanced technology which provides a qualitatively new approach for software development
- Architecture- multilayer architecture with own server
- Operational system- MS Windows, Network Server- Kartell
Application Server- developed by Brain Storm Consult
- Internet Server- Internet Information Server; Database Server- free version of MS SQL Server 2005 Express Edition or MS SQL Server 2005 in cases when the client owns a paid license
- Language of programming C# (C sharp)
- Research and development Tools- Microsoft Visual Studio
- Programming techniques- classic object-oriented programming (OPP)

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BG-1000 Sofia

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Tel:/Fax +359 2 980 66 94

9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com

Appendix 1: Useful information

Useful addresses and telephone numbers

Council of Ministers–Government Information Services	1, Dondukov Boulevard Sofia 1194 , Bulgaria Tel.: +359 2 940 2770; 940 2999 Fax: +359 2 980 2056 Email: gis@government.bg www.government.bg
Bulgarian National Bank	1, Knyaz Alexander I Square Sofia 1000, Bulgaria Tel.: +359 2 91459, Fax: +359 2 980 24 25 Email: press_office@bnb.org www.bnb.bg
Ministry of Foreign Affairs	2, Alexander Zhendov Street Sofia 1040, Bulgaria Tel.: + 359 2 948 2999, Fax: +359 2 971 36 20 Email: iprd@mfa.government.bg www.mfa.government.bg
Financial Supervision Commission	33, Shar Planina Street Sofia 1303, Bulgaria Tel: +359 2 940 4999, Fax: +359 2 829 4324 Email: bg_fsc@fsc.bg www.fsc.bg
Ministry of Finance	102, G. S. Rakovski Street Sofia 1040, Bulgaria Tel.: +359 2 9859 2022/ 2023/ 2078 Email: feedback@minfin.bg www.minfin.government.bg
Ministry of Regional Development and Public Works, Directorate - “Public Relations and International Relations”	17-19, Kiril i Metodii Street Sofia 1202, Bulgaria Tel: +359 2 940 5430, Fax: +359 2 988 2954 Email: press@mrrb.government.bg www.mrrb.government.bg

Privatization Agency	29, Aksakov Street Sofia 1000, Bulgaria Tel: +359 2 987 3294, Fax: +359 2 980 9827 Email: bgpriv@priv.government.bg www.priv.government.bg
Ministry of Economy and Energy, Directorate "Public Relations and Protocol"	8, Slavianska Street Sofia 1052, Bulgaria Tel: +359 2 940 7304, Fax: +359 2 988 5532 Email: PUBLIC@mee.government.bg www.mee.government.bg
National Statistical Institute	2, Panayot Volov Street Sofia 1038, Bulgaria Tel: +359 2 985 7457/7729, Fax: +359 2 985 7799 E mail: Presscentre@nsi.bg www.nsi.bg
Ministry of Transport	,Dyakon Ignatii Street Sofia 1000, Bulgaria Tel.: +359 2 940 9301/9534, Fax: +359 2 940 9824 Email: press@mtc.government.bg www.mt.government.bg
Bulgarian International Business Association	55, Al. Stambolijski Blvd. 3rd floor Sofia, Bulgaria Tel / Fax: +359 2 981 9169, 981 9564, Fax: + 359 988 6776 Email: office@biba.bg www.biba.bg
Ministry of Justice	1, Slavyanska Street Sofia 1040, Bulgaria Tel: +359 2 923 7555, Fax: +359 2 981 91 57 Email: pr@justice.government.bg www.justice.government.bg
Bulgarian Chamber of Commerce and Industry	9, Iskar Street Sofia 1058, Bulgaria Tel.: +359 2 9811 7400, Fax: +359 2 987 3209 Email: bcci@bcci.bg www.bcci.bg

Ministry of Environment and Water	67, W. Gladstone Street Sofia 1000, Bulgaria Tel: +359 2 940 6224, Fax: +359 2 988 5913 Email: contact@moew.government.bg www.moew.government.bg
Bulgarian Industrial Association	16-20, Alabin Street Sofia 1000, Bulgaria Tel.: +359 2 932 0911, Fax: +359 2 987 2604 Email: office@bia-bg.com www.bia-bg.com
Ministry of Agriculture and Forestry	55, Hristo Botev Blvd. Sofia 1040, Bulgaria Tel.: +359 2 985 11254, Fax: +359 2 980 6256 Email: press@mzgar.government.bg www.mzgar.government.bg
InvestBulgaria Agency	31, Aksakov Street Sofia 1000, Bulgaria Tel.: +359 2 985 5500, Fax: +359 2 980 1320 Email: iba@investbg.government.bg www.investbg.government.bg
Ministry of Labour and Social Policy	2, Triaditsa Street Sofia 1051, Bulgaria Tel: +359 2 811 9443, Fax: +359 2 988 4405 Email: mlsp@mlsp.government.bg www.mlsp.government.bg
Bulgaria Economic Forum	86, Vitosha Blvd. Sofia 1463, Bulgaria Tel: +359 2 951 5259, Fax: +359 2 953 2924 Email: info@biforum.org www.biforum.org